

**REPORT OF THE AUDIT OF THE
JACKSON COUNTY
CLERK**

**For The Year Ended
December 31, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE JACKSON COUNTY CLERK

**For The Year Ended
December 31, 2010**

The Auditor of Public Accounts has completed the Jackson County Clerk's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$4,998 from the prior year, resulting in excess fees of \$65,698 as of December 31, 2010. Revenues increased by \$267,586 from the prior year and expenditures increased by \$272,584.

Report Comment:

2010-01 The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William O. Smith, Jackson County Judge/Executive
The Honorable Donald R. Moore, Jackson County Clerk
Members of the Jackson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Jackson County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2011 on our consideration of the Jackson County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable William O. Smith, Jackson County Judge/Executive
The Honorable Donald R. Moore, Jackson County Clerk
Members of the Jackson County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Jackson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

August 8, 2011

JACKSON COUNTY
DONALD R. MOORE, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

HB 537 - Revenue Supplement	\$	61,845	
State Grants			13,921
State Fees For Services			13,416
Fiscal Court			3,918
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	411,258	
Usage Tax		388,573	
Tangible Personal Property Tax		755,257	
Lien Fees		9,548	
Other-			
Marriage Licenses		3,373	
Deed Transfer Tax		10,126	
Delinquent Tax		267,273	
			1,845,408
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		9,708	
Real Estate Mortgages		16,493	
Chattel Mortgages and Financing Statements		32,217	
Powers of Attorney		1,095	
All Other Recordings		20,188	
Charges for Other Services-			
Candidate Filing Fees		1,270	
Copywork		4,106	
			85,077
Other:			
Miscellaneous			1,901
Interest Earned			338
Total Revenues			2,025,824

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
DONALD R. MOORE, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2010
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 290,696

Usage Tax 376,841

Tangible Personal Property Tax 268,823

Licenses, Taxes, and Fees-

Delinquent Tax 34,029

Legal Process Tax 52,798 \$ 1,023,187

Payments to Fiscal Court:

Tangible Personal Property Tax 57,780

Delinquent Tax 13,070

Deed Transfer Tax 9,620 80,470

Payments to Other Districts:

Tangible Personal Property Tax 397,322

Delinquent Tax 139,739 537,061

Payments to Sheriff

22,581

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 140,638

Materials and Supplies-

Office Supplies 24,918

Other Charges-

Conventions and Travel 2,891

Dues 600

Postage 7,937

Miscellaneous 649

Refunds 25,569 203,202

Capital Outlay-

Office Equipment - Libraries and Archives 13,921

Total Expenditures \$ 1,880,422

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
DONALD R. MOORE, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2010
(Continued)

Net Revenues	\$ 145,402
Less: Statutory Maximum	<u>76,104</u>
Excess Fees	69,298
Less: Expense Allowance	<u>3,600</u>
Excess Fees Due County for 2010	65,698
Payment to Fiscal Court - February 8, 2011	<u>65,698</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Jackson County Clerk maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Jackson County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 4. Grant

The Jackson County Clerk received a local records project grant from the Kentucky Department for Libraries and Archives in the amount of \$13,921 during calendar year 2010. Funds totaling \$13,921 were expended during the year, leaving a balance of \$0 as of December 31, 2010.

Note 5. Lease

The Office of the County Clerk was committed to a lease agreement with CIT Technology Financing Services for a copier. The agreement requires monthly payments of \$200 for 60 months to be completed on June 12, 2013.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William O. Smith, Jackson County Judge/Executive
The Honorable Donald R. Moore, Jackson County Clerk
Members of the Jackson County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Jackson County Clerk for the year ended December 31, 2010, and have issued our report thereon dated August 8, 2011. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Jackson County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying comment and recommendation as item 2010-01 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Jackson County Clerk's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Jackson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

August 8, 2011

COMMENT AND RECOMMENDATION

JACKSON COUNTY
DONALD R. MOORE, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2010

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2010-01 The County Clerk's Office Lacks Adequate Segregation Of Duties

As a result of our audit, we noted a lack of segregation of duties exists over receipt, expenditures, and reconciliation functions. Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements due to the risk that misstatement due to error or fraud may occur and go undetected.

The bookkeeper handles the primary functions of each of these areas. The bookkeeper is responsible for receiving payments from customers, reconciling receipts at end of the day, and posting the receipts to the receipt ledger. In addition, the bookkeeper is responsible for processing payments made to vendors, signing checks, and reconciling the bank account.

It is recommended that the County Clerk segregate these duties to separate individuals or implement and document compensating control procedures as suggested below:

- The County Clerk could conduct surprise cash counts on a random basis to ensure all cash drawers balance properly. This could be documented by initialing the daily checkout sheet used to balance the cash drawers.
- The County Clerk could agree daily AVIS reports to the amounts recorded as receipts for usage tax, license fees, and tangible personal property tax. This could be documented by making note on the reports or initialing the daily checkout sheets or receipts ledger.
- The County Clerk could review all bank reconciliations and agree them to the ledgers and to the financial statements. This could be documented by initialing the bank reconciliations.
- The County Clerk could approve all expenditures by initialing invoices or being one of the two required signers on checks.

County Clerk's Response: None.

